

# **Financial Institutions Resources and Solutions, Inc.**

## **Neighborhood Mortgage Stabilization Program Proposal** **November 2008**

### **HELPING 2 MILLION FAMILIES KEEP THEIR HOMES AT NO COST TO TAXPAYERS**

**Concept:** Create a public private partnership to provide \$475 billion in 80% First Deeds of Trust mortgages and federally insured 2<sup>nd</sup> Deeds of Trust Equity Loans to 2 million homeowners facing reduced income or lower property valuation.

This proposal will assist homeowners, stabilize neighborhoods, create new loan opportunities for financial institutions, and revitalize Mortgage Backed Securities at no cost to taxpayers.

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|---------------|-----------------------------------|
| <b>Page 1</b> | <b>Concept</b>                    |
| <b>Page 2</b> | <b>Assumptions</b>                |
| <b>Page 3</b> | <b>Characteristics of Program</b> |
| <b>Page 4</b> | <b>The Global Impact</b>          |

Financial Institutions Resources and Solutions Inc. (FIRSINC) was founded by Mark Riley, a former bank CEO and recognized bank turnaround expert, and Susan Riley, Bank Operations and IT/BSA/AML specialist, to assist financial institutions with improving their performance. FIRSINC, through its principal division, Bank Resources and Solutions, has resources to address all areas of CAMELS, including Strategic Planning, Budgeting, IT and Risk Management. For further information, please contact Mark Riley, FIRSINC, 14732 Vint Hill Road, Nokesville, Va. 20181 or email: [mriley@bankresourcesandsolutions.com](mailto:mriley@bankresourcesandsolutions.com) or telephone: 757-642-8353.

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## Assumptions

1. **The majority of homeowners are hard working Americans who wish to remain in their homes and recognize their responsibility to pay their debts.**
2. Mortgage markets will stabilize when residential property values establish a floor and homeowners can remain in their homes.
3. According to the FDIC (11/13/2008 Press Release), there are a projected 2.22 million non Government Sponsored Entities (GSE) mortgages that may take advantage of modifying their mortgages though 2009.
4. The homeowners and federal government will share in the risk and potential rewards.
5. The average mortgage stays in place for 7-10 years.
6. The economy will fully recover in 5-7 years. Historically, home values will resume appreciating.
7. The majority of problem loans are not the result of fraud or deliberate misrepresentation.
8. The new First Deed of Trust mortgage will not exceed current GSE maximums.
9. By re-writing current, delinquent, or soon to be delinquent loans to a combination of a separate conforming 80% Loan to Value (LTV) First Deed of Trust mortgage and a 2<sup>nd</sup> Equity Loan, problem loans will be eliminated in the Mortgage Backed Securities market and replaced with viable assets.
10. Financial institutions will be encouraged to generate both loans and may retain either or both in their portfolios with yields that are currently higher than other investments.
11. Losses will be minimized through conservative underwriting and appraisals.
12. There will be no pre-payment imposed by the current mortgage holder.
13. The average mortgage is \$200,000. The 80% LTV new mortgage is \$160,000. The new monthly mortgage payment should be substantially lower than the current mortgage payment.
14. The average homeowner will see an immediate reduction of \$465 in monthly mortgage payments or \$5,580 that they may use to pay down debt or build their savings. If the homeowner deposited \$1,428 (26%) of the annual payment reduction into a savings, Money Market or Certificates of Deposit, the principal, with interest at 4 percent APY, would grow to \$11,700 in 7 years.

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## Characteristics of Program

1. The current loan will be paid off by creating an 80% LTV First Deed of Trust with a 30 year amortization and 7 year fixed interest rate, reflecting the current 30 year fixed rate mortgage. The remaining balance will be paid off through a GSE federally insured Equity Loan that will provide for interest only for up to seven years, with an interest rate at .50% above the current 30 year fixed rate mortgage. In addition to a 1% set up fee to the GSE, the borrower will pay an annual fee that escalates during the 7 year term in order to encourage early payouts.
2. Applicants, including those that are delinquent, must have verifiable proof of income and the delinquency must be related to onerous mortgage terms or income impairment issues, and not gross misrepresentations, extravagant lifestyle or speculative investing.
3. In addition to normal and routine fees, the federal government will charge set up fees to the borrower for participating in the program. Borrowers will be encouraged to refinance their loans once the appreciation of the property and reduction of the mortgage permits traditional financing.
4. Financial Institutions that retain the Equity Loans may accrue the interest income—provided the first mortgage is not delinquent (monthly automated credit checks will suffice).
5. Interest on the GSE Equity Loan will not be tax deductible to the borrower, although the GSE may accrue the interest during the 7 year period. When the loan is paid, the accrued interest will be collected.
6. If the First Deed of Trust mortgage has been paid as agreed, the borrower may consolidate the remaining principal with the Equity Loan, plus accrued interest, regardless of the LTV ratio.

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## **The Global Impact**

When enacted, the program will provide for up to 2 million homeowners and participating financial institutions the following:

1. \$320 billion in 80% LTV conforming First Deeds of Trust mortgages.
2. \$155 billion in GSE federally insured Equity Loans representing the difference between the appraised value of the property, excess mortgage debt and the 80% LTV conforming First Deeds of Trust mortgages.
3. The 30 years, 80% LTV new mortgages will create \$3.2 billion in GSE set up fees (1% of the principal) paid by the borrowers in addition to normal and routine fees for participating in the program.
4. The GSE federally insured Equity Loans will generate \$23.25 billion in GSE set up fees (escalating during the 7 year term).
5. Globally, if 2 million households save 26% of the reduction in mortgage payments, the total new savings deposits would exceed \$2 billion.
6. Using a conservative 20% Equity Loan loss projection, the estimated appreciation and fees will offset the potential losses. (No losses are assigned to the 80% First Deeds of Trust mortgages, given their equity position).

**The net result is a win-win for everyone involved:**

1. **Homeowners will stay in their homes.**
2. **Neighborhood real estate values will begin to stabilize.**
3. **Financial Institutions will have expanded lending opportunities with attractive rates and terms.**
4. **The Mortgage Backed Securities market will improve in quality by replacing problem loans with 80% LTV conforming mortgages.**
5. **The program will encourage additional savings.**
6. **The Federal Government will collect set up fees to administer the program and provide coverage against potential losses.**
7. **The taxpayers will not pay for the program.**

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